

**DEPARTMENT OF TRANSPORTATION****AUDITS AND INVESTIGATIONS**

1304 O STREET, SUITE 200  
P. O. BOX 942874 – MS 2  
SACRAMENTO, CA 94274-0001  
PHONE (916) 323-7111  
FAX (916) 323-7123  
TTY 711



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March 3, 2010

Joseph T. Smith  
Chief Financial Officer  
Santa Clara Valley Transportation Authority  
3331 North First Street  
San Jose, CA 95134-1927

Re: Santa Clara Valley Transportation Authority  
Audit of Indirect Cost Allocation Plan for FY 2009/10  
File No.: P1590-0082

Dear Mr. Smith:

We have reviewed the Santa Clara Valley Transportation Authority's (VTA) Indirect Cost Allocation Plan (ICAP) for fiscal year 2009/10 and the accompanying approval letter from the Federal Transit Administration (FTA), VTA's cognizant federal agency.

Although VTA changed its methodology for allocating indirect costs in its Operations and Projects rates, the California Department of Transportation (Caltrans) Audits and Investigations Division (A&I) continues to have concerns regarding the use of total costs as a basis for allocation in its Contracted Services rate. Additionally, we have concerns with the inclusion of total costs and consultant labor costs in the calculation of the General and Administration allocation percentages. The use of total costs and consultant labor costs deviates from the requirements of 2 Code of Federal Regulations 225, Part Appendix E. C.3.e, which states:

*"The distribution base used in computing the indirect cost rate for each function may be total direct costs (excluding capital expenditures and other distorting items such as pass-through funds, major subcontracts, etc.), direct salaries and wages, or another base which results in an equitable distribution ..."*

A&I is also concerned that no carry forward calculation was performed. Although the methodology was modified, this does not preclude the need to determine the difference between actual 2008 indirect costs and the indirect cost that should have been recovered, and adjusting for any variance in the second subsequent year.

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However, because FTA is VTA's cognizant agency and has approved VTA's change in allocation methodology, subject to audit verification, A&I defers to FTA the approval of the indirect cost and special rates and will allow VTA to bill Caltrans at the following rates:

Operations:	197.37 percent of direct labor, excluding fringe benefits
Projects:	180.50 percent of direct labor, excluding fringe benefits
Contracted Services:	14.30 percent of total costs
Copy Center:	\$.13 per copy
Non-revenue Vehicles:	\$.65 per mile driven

Please retain a copy of this letter with your indirect cost rate proposal. Copies of this letter were sent to Caltrans District 4, Caltrans Division of Accounting, the Federal Highway Administration, and FTA. This letter is a matter of public record and will be included on the "Reporting Transparency in Government" website. If you have any questions, please contact Barbara Nolan, Auditor, at (916) 323-7880 or Amada Maenpaa, Audit Manager at (916) 323-7868.

MARYANN CAMPBELL-SMITH

Chief, External Audits – Local Government

#### Attachments

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration  
Sue Kiser, Director, Planning and Right of Way, Federal Highway Administration  
Leslie T. Rogers, Regional Administrator, Region IX, Federal Transit Administration  
David Saia, Senior Transportation Engineer, Policy Development and Quality Assurance, Division of Local Assistance  
James Ogbonna, Branch Chief, Division of Mass Transportation  
Jenny N. Tran, Associate Accounting Analyst, Local Assistance Accounting Branch, Division of Accounting  
Sylvia Fung, Local Assistance Engineer, Planning and Local Programs, District 4

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY  
STATE OF CALIFORNIA  
CERTIFICATE OF INDIRECT COSTS**

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

1. All costs included in this proposal of June 30, 2009 which establish billing or final indirect cost rates for July 1, 2009 through June 30, 2010, are allowable in accordance with the requirements of the Federal award(s) to which they apply and OMB Circular A-87, "Cost Principles for State and Local Governments". Unallowable costs have been excluded in allocating costs as indicated in the cost allocation plan.
2. All costs included in this proposal are properly allocable to Federal awards on the basis of beneficial/causal relationship between the expense incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs have been treated as indirect costs and have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government will be notified of any accounting changes that would affect the proposed rates.

I declare that the foregoing is true and correct.

Joseph T. Smith  
Chief Financial Officer  
April 9, 2009